

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-212-S - ORDER NO. 2005-42
FEBRUARY 2, 2005

IN RE: Application of Development Service, Inc. for Approval) ORDER GRANTING
of a New Schedule of Rates and Charges for Sewage) INCREASE IN
Service Provided to Residential and Commercial) RATES AND CHARGES
Customers in all Areas Served.)

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (“the Commission”) on an application for increases in sewer rates and charges filed by Development Service, Inc. (“DSI”). DSI’s application was accepted by the Commission pursuant to S.C. Code Ann. § 58-5-210 *et. seq.* and 26 S.C. Regs. 103-512. DSI’s application was filed on July 28, 2004.

By correspondence, the Commission instructed DSI to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the areas affected by DSI’s application. The Notice of Filing indicated the nature of the application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. In the same correspondence, the Commission also instructed DSI to notify directly, by U.S. Mail, each customer affected by the application by mailing each customer a copy of the Notice of Filing. DSI furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published and with a letter in which DSI certified compliance with the instruction of the

Commission to mail a copy of the Notice of Filing to all customers affected by the application. No Petitions to Intervene were filed.

The Office of Regulatory Staff made on-site investigations of DSI's facilities, audited DSI's books and records, and gathered other detailed information concerning DSI's operations. Prior to January 1, 2005, the Public Service Commission Staff also made on-site investigations.

On January 5, 2005 at 10:30 a.m., a public hearing concerning the matters asserted in DSI's application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, SC. The full Commission, with Chairman Randy Mitchell presiding, heard the matter of DSI's application. Scott Elliott, Esquire and Charles Cook, Esquire represented DSI. Florence Belser, General Counsel of ORS, and Shannon Hudson, Esquire represented the Office of Regulatory Staff. David Butler, Esquire served as legal counsel to the Commission.

DSI presented the testimony of Keith G. Parnell, President of DSI. The Office of Regulatory Staff presented the testimony of Willie J. Morgan, Program Manager for the Office of Regulatory Staff Water and Wastewater Department, Dawn Hipp, Project Specialist for the Office of Regulatory Staff Water and Wastewater Department, and Sharon Scott, Office of Regulatory Staff Auditor.

BACKGROUND AND PROCEDURAL MATTERS

DSI is a privately owned company operating a collection only system in Richland County in the area around Dutch Square Shopping Mall. At the time of its Application, DSI provided sewer service to 67 commercial customers and 66 residential customers. DSI's present rate schedule was approved by the Commission in Order Number 96-44 dated January 19, 1996

(Docket Numbers 94-727-S and 94-728-S). The wastewater collected by DSI is treated by Bush River Utilities, Inc. ("BRUI"), making DSI a wholesale customer of BRUI.

BRUI is a privately owned sewer company furnishing sewer collection and sewer treatment in Richland and Lexington Counties. BRUI and DSI (collectively "Companies") are commonly owned by brothers Keith Parnell (President) and Ken Parnell (Vice President). DSI is the largest customer of BRUI. BRUI applied for a rate increase on August 18, 2004, and the Commission hearing on BRUI's application was heard on January 20, 2005, approximately two weeks after the DSI hearing. Both Companies' applications for rate increases contain substantially identical issues and identical rate schedules.

During the DSI hearing, counsel for DSI made a three part Motion requesting: 1) the Commission allow an extra five (5) days past the six-month time period for publishing an order in a rate case, consistent with the provisions of S.C. Code Ann. § 58-5-240(D); 2) consolidation of the DSI and BRUI sewer dockets, so that the evidence presented in both dockets would be available for consideration during deliberation in both dockets, and 3) an extension of the six-month time period for issuing an Order past the additional five (5) days allowed in S.C. Code Ann. § 58-5-240(D). *See* Commission Order No. 2005-29 (January 18, 2005), Docket No. 2004-212-S. The Commission granted the additional five (5) days for publishing the Order as allowed by S.C. Code Ann. § 58-5-240(D), but did not allow an extension beyond this additional five (5) days for publishing the Order. *Id.* The Commission, however, did allow the dockets of DSI and BRUI to be combined so that evidence presented in both dockets could be considered during deliberation. *Id.* Similarly, in the last rate case, the Commission combined the operations of the Companies for ratemaking purposes and, in a single Order addressing both rate applications,

ordered the Companies to charge identical rates for residential and commercial customers due to the relationship and dependence between BRUI and DSI. *See* Commission Order No. 96-44 (January 19, 1996), Docket No. 94-727-S Application of Development Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and Charges for Sewer Service. In the 1996 Order, the Commission also set a wholesale rate for DSI which is dependent upon the rates charged by BRUI. *Id.* In this matter, the Commission has carefully considered the applications filed by the Companies and will issue separate Orders consistent with the Order allowing evidence from both dockets to be considered in reaching a determination. *See* Commission Order No. 2005-29 (January 18, 2005), Docket No. 2004-212-S.

FINDINGS OF FACT AND EVIDENCE SUPPORTING FINDINGS OF FACT

After thorough consideration of the entire record in the DSI and BRUI hearings, including the testimony and all exhibits, and the applicable law, the Commission makes the following findings of fact and conclusions of law with respect to DSI:

1. DSI is a sewer utility operating in Richland County, South Carolina in the area around Dutch Square Shopping Mall and is subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 et seq.

The evidence supporting this finding is contained in the application filed by DSI, in the testimony of DSI witness Parnell, and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. By filing its application, DSI admits that it is a public utility within the meaning of S.C. Code Ann. § 58-5-10 and submits itself to the jurisdiction of the Commission.

2. The appropriate test year period for purposes of this proceeding is the twelve-month period ending December 31, 2003.

DSI chose to file its application on the twelve months ending December 31, 2003. Accordingly, DSI picked the test year ending December 31, 2003. Based on DSI's proposed test year, the ORS utilized the same test period for its accounting and pro forma adjustments. A fundamental principle of the ratemaking process is the establishment of a historical test year with the basis for calculating a utility's operating margin and, consequently, the validity of the utility's requested rate increase. The test year is established to provide the basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Public Service Commission*, 328 S.C. 222, 493 S.E.2d 92 (1997), *citing Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E. 2d 110 (1992). While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. Where an unusual situation exists which shows that the test year figures are atypical, the Commission should adjust the test year data. *See Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E. 2d 278 (1978); *see also, Parker v. South Carolina Public Service Commission*, 280 S.C. 310, 313 S.E.2d 290 (1984), *citing City of Pittsburgh v. Pennsylvania Public Utility Commission*, 187 P.A. Super. 341, 144 A.2d 648 (1958); *Southern Bell v. The Public Service Commission*, 270 S.C. 590, 244 S.E.2d 278 (1978). Based on the information available to the

Commission, the Commission is of the opinion, and therefore concludes, that the test year ending December 31, 2003 is appropriate for the purposes of this rate request.

3. The Commission will use the operating margin as a guide in determining the lawfulness of DSI's proposed rates and for the fixing of just and reasonable rates.

In its application, DSI does not specify or propose a particular rate setting methodology. "The Public Service Commission has wide latitude to determine an appropriate rate-setting methodology." *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 64, 478 S.E.2d 826, 830 (1996). The ORS, in support of its position and recommendations in this case, presented in its exhibits and testimonies information regarding the operating margins for per books test year, test year as adjusted, and Phase-I of the proposed increase. See Hearing Exhibit No. 4, P. i (Synopsis) and Audit Exhibit A. The ORS also presented various alternative operating margins and associated revenue requirements for those operating margins. Hearing Exhibit 3, Exhibit DMH-9. DSI neither supplied any operating margin information in its application nor supplied sufficient information on which rates could be set using rate of return on rate base methodology. Because the only information available relates to operating margin methodology, the Commission finds that operating margin is the appropriate rate-setting methodology to use in this case.

4. DSI is seeking an increase in rates in two phases.

By its Application, DSI is seeking an increase in its rates and charges, net of uncollectibles, for sewer service pursuant to a two-phase approach which DSI asserts results in an increase of sewer service revenues, net of uncollectibles, during Phase-I of \$73,713 and an additional increase in revenues, net of uncollectibles, of \$47,538 during Phase-II. As will be

demonstrated infra, we believe that a Phase-I increase in revenues of \$71,860, and an additional increase in revenues of \$47,880 in Phase-II is appropriate.

The evidence for this finding concerning the amount of the requested rate increase is contained in the Application (as amended) by DSI. DSI application (as amended), Exhibit 2, P. 1 of 4. The testimony and exhibits of ORS witness Sharon Scott show that the level of operating revenues under Phase-I of the rates are \$321,826 which reflects ORS' adjustments and a net authorized increase in operating revenues of \$66,960. Unfortunately, ORS basically netted out uncollectibles from revenues, while still including uncollectibles in expenses. This amounts to a double-counting of uncollectibles, and ORS should have done one or the other, but not both. Removing the effect of the uncollectibles produces a revenue figure of \$71,860 for Phase-I, which we hereby adopt. Further, ORS does not recommend the increase of Phase-II rates as those rates are tied to construction and rates at BRUI. Since BRUI has also filed an application for an increase in rates and charges, and construction has not begun at BRUI, ORS asserts that the Phase-II rates are tied to costs that are not known and measurable. We disagree with this assertion and we will discuss infra why we believe that these costs are known and measurable, and why a Phase-II increase is therefore reasonable.

5. The appropriate operating revenues of DSI during the test year under present rates and after accounting and pro forma adjustments are \$254,866.

DSI's application shows per book test year total operating revenues of \$247,883. DSI application (as amended), Exhibit 2, P. 1 of 4. ORS began with the per book test year operating revenues of \$247,883, and then ORS proposed an adjustment to per book operating revenues to annualize service revenues. Hearing Exhibit 4, Audit Exhibit A and A-1. ORS's proposed

adjustment results in an increase to per book operating revenues of \$6,983. ORS's adjustment was based on a bill frequency analysis. DSI amended its application and changed its revenues to include revenue in the amount of \$27,120 for contract service revenues. DSI proposes to charge \$27,120 to Midlands Utility, Inc., an affiliated company, for use of DSI's equipment. However, ORS witness Scott stated that ORS found no justification for DSI's amendment to its revenues and therefore did not allow the adjustment. Scott Prefiled Testimony, P. 5, ll. 3-10; Hearing Exhibit No. 4, Audit Exhibit A-1. While not allowing the DSI revenue adjustment for lack of justification, witness Scott stated that she did make and allow several adjustments on the Depreciation Schedule to allocate costs to BRUI and Midlands Utility, Inc. (MUI), another sewer utility owned by Keith Parnell and Ken Parnell.

We find the adjustments proposed by ORS to be reasonable and adopt the ORS's adjustments. The effect of the ORS adjustments annualizes the test year revenues and as stated by witness Scott was justified and therefore verified by her audit. DSI has offered no further explanation of the proposed adjustment for contract service revenues. Therefore, we find the appropriate operating revenues for the test year after accounting and pro forma adjustments to be \$254,866.

6. The appropriate operating expenses for DSI for the test year under present rates and after accounting and pro forma adjustments are \$264,835.

The parties offered certain adjustments affecting operating expenses for the test year. DSI witness Parnell and ORS witnesses Morgan, Hipp and Scott offered testimony and exhibits detailing adjustments proposed by the parties. See Hearing Exhibits 2, 3, and 4 and DSI's Application. This section addresses the adjustments:

A) Officer's Salary [ORS Adjustment #3]

- 1) Position of DSI: DSI proposes to increase officer's salary by \$534.
- 2) Position of ORS: ORS found that no salary increase had been given and the increase was due to DSI's rounding of officer's salary. Prefiled Testimony of Scott, P.5, ll. 11-14. Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: According to witness Scott, this adjustment does not reflect a known and measurable change. DSI offered no further explanation for this proposed adjustment. Therefore, because the adjustment does not reflect a known and measurable out-of-test year change, we find that the adjustment cannot be accepted. DSI's proposed increase of officer's salary of \$534 is not allowed.

B) Other Salaries [ORS Adjustment #4]

- 1) Position of DSI: DSI proposes to increase other salaries by \$885.
- 2) Position of ORS: ORS found that no salary increase had been given and the increase was due to DSI's rounding of other salaries. Scott Prefiled Testimony, p. 5, ll. 15-18; Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: ORS witness Scott testified that this adjustment appears to be due to rounding. Witness Scott further stated that no salary increases had been given and that the proposed adjustment was not known and measurable. Because the adjustment cannot be verified, DSI's proposed increase of other salaries is not allowed.

C) Expenses for Repairs [ORS Adjustment #5]

- 1) Position of DSI: DSI proposes to increase expenses for repairs by \$45.

- 2) Position of ORS: ORS neither found justification for this increase nor a known and measurable out of test year change, therefore, no adjustment was made for DSI's proposed increase in expenses for repairs. Scott Prefiled Testimony, P. 5, ll. 19-22; Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: Because ORS did not find justification for this adjustment and because DSI offered no further explanation for this adjustment, we do not accept the proposed increase in repairs expense. DSI's proposed increase in expenses for repairs is not allowed.

D) Expenses for Taxes Other Than Income [ORS Adjustment #6]

- 1) Position of DSI: DSI proposes to decrease expenses for Taxes Other Than Income by \$1,126.
- 2) Position of ORS: ORS found no justification or other known and measurable change for this decrease, therefore, ORS made no adjustment. Scott Prefiled Testimony, P. 6, ll. 1-5; Hearing Exhibit No. 4, Audit Exhibit A-1.
- 3) Decision of the Commission: Because no justification for the proposed decrease to Taxes Other Than Income was found in the ORS audit or produced at the hearing, the Commission denies this adjustment proposed by DSI. Accordingly, the proposed decrease of \$1,126 to Taxes Other Than Income is not allowed.

E) Interest Expenses [ORS Adjustment #7]

- 1) Position of DSI: DSI proposes to include interest expense of \$5,751 as an above-the-line operating expense.

- 2) Position of ORS: ORS found no justification to include interest expense as an above-the-line operating expense. ORS does not include interest expense as an above-the-line operating expense, but ORS does include interest expense of \$2,284 in computing operating margin. The allowable interest expense is computed using the as adjusted rate base, which ensures that only interest expense associated with DSI's regulated operations is allowed. ORS has computed a Total Rate Base of \$97,006. DSI had negative equity of (\$47,138). Therefore, ORS proposed to use a 50/50 capital structure which reflects a more normal capital structure to compute allowable interest expense. ORS Staff computes the portion of rate base supported by Long-Term Debt by using 50% of the Total Rate Base of \$97,006 resulting in an amount of \$48,503. ORS Staff computed a cost of debt factor of 4.71% using the Long-Term Debt balances at December 31, 2003. The factor of 4.71% is applied to \$48,503 for the allowable interest expense of \$2,284. See Testimony of ORS witness Scott at 6-8.
- 3) Decision of the Commission: The Commission adopts the interest expense of \$2,284, as outlined by ORS, and based on the reasoning of ORS. DSI has provided no justification for including interest expense as an above-the-line item.

F) Depreciation Expense [ORS Adjustment #8]

- 1) Position of DSI: DSI proposes to depreciate its plant over 20 years and its equipment over 7 years for an increase in depreciation expense of \$9,697.
- 2) Position of ORS: The Water/Wastewater Department proposes basing depreciation on Florida Public Service Commission Water and Wastewater System Regulatory Law as recommended by NARUC. Accordingly, ORS recommends that the plant be depreciated

over 45 years. DSI equipment includes a pick-up truck, backhoe, computer, desk, chemical sprayer, and an emergency generator. The truck and backhoe are used by DSI, BRUI, and Midlands Utility, Inc. ORS recommends a 6-year depreciation for the truck and a 12-year depreciation for the backhoe with the relevant depreciation expense further allocated among the three companies that use the equipment. The computer and desk are not currently being capitalized by DSI, and ORS recommends their capitalization with a service life of 6 and 15 years, respectively. The chemical sprayer is being used solely at BRUI, and the generator is being used solely at Midlands Utility, Inc. Because DSI is neither using the chemical sprayer nor generator, no depreciation expense is recommended to be allocated to DSI for these items. ORS's proposed net depreciation expense is \$3,907. ORS Witnesses Morgan and Scott Direct Testimonies; Hearing Exhibits 2 and 4; Morgan Exhibit WJM-2 and Audit Exhibit A-2.

- 3) Decision of the Commission: We find that ORS's adjustments are appropriate and adopt them as computed. Although the Commission ordered a 50-year service life in the last Order, we find the ORS recommended 45-year service life for plant is reasonable and sound. *See* Commission Order No. 96-44 (January 19, 1996), Docket No. 94-727-S Application of Development Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and Charges for Sewer Service. NARUC's recommendation to follow the Florida Public Service Commission Water and Wastewater System Regulatory Law for service life is respected by this Commission, and will be

adopted for this proceeding. However, we reserve our right to examine and adopt an additional source for depreciation rates and information in the future, if appropriate.

G) Treatment Expenses [ORS Adjustment #9]

- 1) DSI Position: BRUI treats DSI's wastewater collections, and DSI pays BRUI monthly charges for BRUI's treatment of the wastewater. The monthly treatment expense charged by BRUI to DSI is computed by aggregating the monthly service charges which BRUI would charge each DSI customer if the customer was directly on BRUI's system. Seventy-five percent (75%) of this aggregate figure is then charged to DSI as a monthly service charge. The effect is that the monthly service charge paid to BRUI is 75% of DSI's revenue. This fee method was approved by the Commission in DSI's last rate case. *See* Commission Order No. 96-44 (January 19, 1996), Docket No. 94-727-S Application of Development Service, Inc. for Approval of an Increase in Rates and Charges for Sewer Service and Docket No. 94-728-S – Application of Bush River Utilities, Inc. for Approval of an Increase in Rates and Charges for Sewer Service. DSI proposes to adjust its treatment expense it pays to BRUI based on the amount of rate increases requested by DSI in its application for an increase in rates and charges. This amount is \$72,500 for the Phase-I increase and \$36,000 for the Phase-II increase.
- 2) ORS position: Currently, DSI and BRUI have the same approved rates. *Id.* ORS proposes to adjust treatment expense to reflect seventy-five percent (75%) of the adjusted DSI revenue. This amount is \$19,477. ORS did not base its proposed adjustment on BRUI's proposed rates, because BRUI's proposed rates have not been approved and

DSI's proposed adjustment is speculative. ORS Witness Scott Direct Testimony PP. 9-11 and Audit Exhibit A-1.

- 3) Decision of the Commission: We approve the ORS's adjustment of \$19,477, based on seventy-five percent (75%) of the adjusted DSI revenue. We also hold that \$53,895 should be adopted for Phase-I and \$35,910 for Phase II for this adjustment, based on seventy-five percent (75%) of the revenue after the increase, as approved herein. This reflects increased treatment expense payments to BRUI resulting from the approved rate increase.

H) Professional Services [ORS Adjustment #11]

- 4) DSI Position: DSI proposes to include rate case expenses of \$700, bank services and loan closing fees for the construction loan of \$1,800, and to increase regular accounting services by \$100 for a total adjustment of \$2,600.
- 5) ORS position: ORS removes the rate case expenses as a professional service and adjusts for the rate case expenses separately in Rate Case Expenses. [ORS Adjustment #13]. Further, since DSI is not undergoing construction, ORS removed the \$1,800 loan closing fees for the construction loan. Construction is proposed only at BRUI and Midlands Utility, Inc., and the loan proceeds will not be used at DSI. Therefore, in order not to overcharge the customers of DSI by including the construction loan or costs associated with the construction loan directly to DSI, ORS does not include any costs associated with securing the construction loan in DSI's rate case. ORS does propose an adjustment of \$100 to this account to reflect an increase in accounting services during the test year

from \$900 to \$1,000. ORS Witness Scott Direct Testimony PP. 9-11 and Audit Exhibit A-1.

- 6) Decision of the Commission: The Commission agrees with the ORS position on disallowance of construction loan costs since DSI is not undergoing construction. DSI will pay its share of loan costs by paying the monthly treatment charges to BRUI. If BRUI includes the costs of the loan in its expenses on which rates will be set, BRUI will recoup the costs of the loan through its charges to its customers, including DSI. The Commission also agrees with the ORS to treat rate case expenses as a separate adjustment. Accordingly, expenses for this rate case will be discussed separately. The Commission agrees with the ORS recommended adjustment of \$100 for accounting services during the test year as ORS has verified this increase during its audit. As such, the proposed increase represents a known and measurable change which is appropriately included in expenses.

I) Rate Case Expenses [ORS Adjustment 13]

- 1) Position of DSI: DSI proposes to adjust for rate case expenses associated with this filing by amortizing \$24,950 for rate case expenses over a three year period for an adjustment of \$8,317. See Hearing Exhibit No. 8. DSI presented testimony that three years is the standard amortization period used for rate case expenses that has been approved by the Commission in the past. Further, in response to ORS Data Requests, DSI stated “this is the standard amortization period used for rate case expense that has been approved by the Commission in the past.” Hearing Exhibit No. 6, Data Request No. 1.38.

- 2) Position of ORS: ORS proposes to amortize the rate case expenses of \$9,457 over a 5-year period. ORS Witness Scott Direct Testimony P. 12, l. 17- P. 13, l.5. The adjustment is comprised of \$700 for expenses for accounting services during the test year and \$8,757 for legal expenses. At the hearing, ORS did not object to DSI submitting a late-filed exhibit for rate case expenses. ORS received the late-filed exhibit on Monday, January 24, 2005, and the exhibit indicates total rate case legal expenses of \$24,950. ORS considered time between rate cases as one measure for an amortization period. DSI's previous rate case proceedings were in 1996 and 1987 resulting in approximately 8.5 years between rate cases. However, ORS testified that an 8.5 year amortization period is too long and proposed a more reasonable amortization period of 5 years. ORS Witness Scott Direct Testimony and Audit Exhibit A-1. Using the ORS amortization period of 5 years with the updated rate case expenses from hearing Exhibit 8, results in an adjustment of \$5,130.
- 3) Decision of the Commission: The Commission concludes that a total of \$25,650 (\$700 in accounting expenses and \$24,950 in legal expenses) should be amortized over a three-year period, for an increase in rate case expenses of \$6,659 above the amount of \$1,891 included by ORS in its audit report. The Commission adopts a three-year amortization period as a reasonable period for DSI to recover these expenses without causing undue hardship on ratepayers. We agree with ORS's position that three years for a standard amortization period that has been approved by the Commission in the past is not sufficient legal justification for use of such a period. The Commission cannot make an adjustment based merely on past Commission practice. *Hamm v. South Carolina Public*

Service Comm'n, 309 S.C. 282, 422 S.E.2d 110 (1992). However, we believe that the three-year amortization period is appropriate for this case, especially due to the fact that the Company could possibly be involved with further regulatory proceedings due to our findings herein before implementation of the Phase-II increase. The Commission will therefore allow \$25,650 in rate case expenses to be recovered over 3 years.

J) Telephone Expenses [ORS Adjustment #14]

- 1) Position of DSI: In the application, DSI proposed to increase telephone expenses by \$63.
- 2) Position of ORS: ORS presented testimony that this proposed adjustment was due to rounding and was not due to any known and measurable change. Therefore, ORS did not allow this adjustment. ORS Witness Scott Direct Testimony P. 13 and Audit Exhibit A-1.
- 3) Decision of the Commission: The Commission finds that no testimony or evidence was presented which would show this adjustment was known and measurable. Therefore, because no justification for the proposed increase to telephone expenses was found in the ORS audit or produced at the hearing, the Commission denies this adjustment proposed by DSI. Accordingly, the proposed increase of \$63 to telephone expense is not allowed.

K) Vehicle Expenses [ORS Adjustment #15]

- 1) Position of DSI: DSI's application reflects \$1,109 in vehicle expenses during the test year. This expense is comprised of \$858 for vehicle insurance and \$251 for vehicle repairs. The vehicle is a Ford F-250. DSI proposed to decrease this amount to \$1,000.
- 2) Position of ORS: ORS witness Scott testified the Ford F-250 was used 1/3 of the time by DSI, and the vehicle expenses should be adjusted accordingly to reflect DSI's portion of

these expenses. One-third of \$1,109 is \$370, therefore, ORS's adjustment is (\$739) to Operating and Maintenance expenses. ORS also allocated and allowed one-third (1/3) of the total vehicle taxes of \$328 to DSI resulting in an adjustment to taxes other than income of (\$219) to remove two-thirds (2/3) of that amount. ORS Witness Scott Direct Testimony, P. 13 and Audit Exhibit A-2.

- 3) Decision of the Commission: The Commission adopts the ORS position on vehicle expenses and will allow the vehicle expenses to be adjusted to reflect DSI's expenses for its portion of the truck usage. Testimony shows DSI only uses the truck responsible for vehicle expenses 1/3 of the time. It would not be prudent to allow DSI rate payers to pay for 100% of the truck expenses when the truck is only used 1/3 of the time for its benefit, therefore, the Commission adopts the ORS adjustments to vehicle expenses.

L) Insurance Premiums [ORS Adjustment #16]

- 1) Position of DSI: DSI did not propose to include group insurance premiums paid on DSI's Plant in Service in its expenses for the test year.
- 2) Position of ORS: ORS proposes to allocate a portion of group insurance coverage premiums for general liability coverage and umbrella coverage on DSI's Plant in Service. ORS witness Scott testified that an insurance payment of \$5,106 was made by BRUI. Of this payment, ORS determined during its audit that \$3,926 was for insurance coverage on vehicles not owned by DSI. ORS determined the remaining \$1,180 is for general liability and umbrella coverage on commercial property. ORS allocated the \$1,180 among the three companies based on single family equivalents resulting in an adjustment to DSI's expenses of \$256. ORS Witness Scott Direct Testimony, p. 13-14 and Audit Exhibit A-1.

- 3) Decision of the Commission: The Commission has found ORS's adjustments and manner in arriving at these adjustments to be reasonable and verifiable. The Commission allows the ORS recommended adjustments to DSI's expenses of \$256 for its portion of group insurance coverage premiums.

M) Gross Receipts Tax [ORS Adjustment #17]

- 1) Position of DSI: DSI proposes to include \$2,055 relating to the Gross Receipts Tax as reflected in its per book expenses.
- 2) Position of ORS: ORS witness Scott testified ORS applied the most recent gross receipts factor of 0.007733226 to the as adjusted revenues. The gross receipts factor includes costs for administration, the Public Service Commission, and the Office of Regulatory Staff. ORS applied the factor to the as adjusted revenue of \$254,866 for total gross receipts of \$1,971 less the per book amount of \$2,055 for an adjustment of (\$84).
- 3) Decision of the Commission: The Commission adopts the adjustment made by ORS as reasonable and verifiable for regulatory purposes. Since the Commission has adopted and approved the ORS adjusted revenues, it is appropriate to apply the most recent gross receipts factor for an adjustment of (\$84) to DSI's Gross Receipts Tax Expense.

N) Uncollectibles Associated with As Adjusted Revenues [ORS Adjustment #18]

- 1) Position of DSI: DSI proposed to adjust revenues for a 1.5% allowance for uncollectibles associated with the as adjusted service revenues for an adjustment of \$4,897. DSI indicated this adjustment is reasonable in light of the fact DSI's uncollected rates in the test year were 2.66% based on test year revenues for sewer service of \$247,883 and

annualized total revenues based on 100% collections from the customer base equaling \$254,636.16. Hearing Exhibit 6, Response to First Set of Data Requests, 1.28.

- 2) Position of ORS: ORS proposes to adjust expenses for a 1.5% allowance for uncollectibles associated with the as adjusted revenues. ORS witness Scott testified that the 1.5% allowance is an industry standard and is less than DSI's actual test year uncollectible rate of 2.72% as determined by ORS. ORS also concludes a total adjustment of \$3,820 is reasonable. ORS Witness Scott Direct Testimony, P. 14 and Audit Exhibit A-1.
- 3) Decision of the Commission: The Commission agrees with ORS and adjusts DSI's test year expenses to reflect 1.5% in uncollectibles for a total adjustment of \$3,820. The Commission finds a 2.72% uncollectible rate unreasonable.

O) Service Revenues [ORS Adjustment #19]

- 1) Position of DSI: DSI proposes to adjust service revenues for the proposed increase in rates. DSI's proposed service revenue adjustment is \$73,713 net of uncollectibles in Phase-I and \$47, 538 net of uncollectibles in Phase-II.
- 2) Position of ORS: ORS also proposes to adjust service revenues for the proposed increase in the amount of \$66,960 based on DSI's Phase-I rate structure. ORS did not include DSI's "after construction" or Phase-II proposed rates as being known and measurable at this time, and therefore, did not compute the impact of the Phase-II increase as proposed by the Company.
- 3) Decision of the Commission: The Commission disagrees with ORS, and finds that the rates and charges requested in this proceeding and approved herein produce additional

gross annual revenues of \$71,860 under Phase-I and \$47,880 under Phase-II. The impact of the proposed rates and charges as requested by the Company is fully known and measurable.

P) Uncollectibles Associated with the Proposed Revenue [ORS Adjustment #20]

- 1) Position of DSI: DSI proposes to reduce revenues by an allowance of 1.5% of proposed revenues for uncollectibles. This adjustment amounts to \$4,897 which is computed using DSI's total proposed revenues of \$326,493 multiplied by the 1.5% allowance.
- 2) Position of ORS: ORS proposes to adjust operating expenses for a 1.5% allowance for uncollectibles. As ORS witness Scott testified, because ORS has already allowed an amount for uncollectibles on the as adjusted service revenue, ORS needs only to make an additional adjustment for the proposed increase for service revenues. This adjustment was computed using the ORS proposed increase of \$66,960 multiplied by the 1.5% allowance resulting in a total adjustment of \$1,004. ORS Witness Scott Direct Testimony, P. P. 15 and Audit Exhibit A-1.
- 3) Decision of the Commission: As the Commission has found the appropriate level of revenues, the Commission also adjusts to allow for 1.5% uncollectibles on the approved increase in service revenues under Phase-I and Phase-II for an adjustment of \$1,078 and \$718 under Phase-I and Phase II, respectively.

Q) Gross Receipts Taxes Associated with the Proposed Increase [ORS Adjustment #21]

- 1) Position of DSI: DSI did not propose to adjust for gross receipts taxes associated with the proposed increase.

- 2) Position of ORS: ORS proposed to adjust for gross receipts tax associated with the proposed increase. ORS presented testimony that it used the proposed increase of \$66,960 multiplied with the gross receipts factor of 0.007733226 for a total adjustment of \$518. ORS Witness Scott Direct Testimony, P. 15 and Audit Exhibit A-1.
- 3) Decision of the Commission: The Commission believes the adjustment for gross tax receipts is reasonable and consistent with the previous adjustments. Since the Commission has found the appropriate level of revenues, it is appropriate to apply the most recent gross receipts factor to this amount for an adjustment of \$556 in Phase-I and \$370 in Phase-II.

R) Income Taxes [ORS Adjustment #22]

- 1) Position of DSI: DSI proposes to adjust for income taxes associated with DSI's proposed increase in income. DSI states in its application that this adjustment is \$1,847.
- 2) Position of ORS: ORS also proposes to adjust for income taxes associated with the proposed increase. ORS witness Scott testified that ORS's adjustment was based on revenues, expenses, and interest expense after the proposed increase for a total adjustment of \$12,205. DSI is organized as a Sub-Chapter S corporation and does not pay income taxes. Instead, income taxes are paid by the shareholders on their personal income tax returns. Although DSI will not pay corporate income taxes, ORS proposes to allow income taxes on the net income of DSI since its operations cause a tax liability. ORS's proposed treatment of income taxes is consistent with the Commission's decision in the Madera Utilities, Inc. rate case. *See* Docket No. 2003-368-S. ORS Witness Scott Direct Testimony, PP. 15-16 and Audit Exhibit A-3.

- 3) Decision of the Commission: The Commission agrees with both DSI and ORS that the income taxes associated with the proposed increase should be adjusted. However, the Commission finds that the appropriate adjustment to income taxes should be \$785 after the approved increase in Phase-I and \$2,880 after the approved increase in Phase-II. The allowance of income taxes is due to utility operations being the source of the tax liability.

S) Customer Growth [ORS Adjustment #23]

- 1) Position of DSI: DSI did not propose to adjust net operating income for customer growth.
- 2) Position of ORS: ORS proposes to adjust Net Operating Income for Customer Growth after the proposed increase. ORS used a customer growth factor of 0.007634 based on DSI's customer growth during the test year and applies the factor to the Net Operating Income after the proposed increase of \$49,923 for an adjustment of \$381. ORS Witness Scott Direct Testimony, p. 16 and Audit Exhibit A-4.
- 3) Decision of the Commission: The Commission finds that DSI experienced a growth in customers from 131 customers at the beginning of the test year to 132 customers at the end of the test year based on evidence presented by ORS. Using the Computation of Growth factor of $(\text{Ending Customers} - \text{Average Customers}) / \text{Average Customers}$, the Commission agrees with ORS's customer growth factor of 0.007634 and adjusts net operating income by \$43 after the Phase-I increase and \$110 after the Phase-II increase.

Summary of Adjustments to Expenses:

The adjustments to test year operating expenses adopted herein result in an increase in O&M Expenses of \$18,438; an increase in General and Administrative ("G&A") Expenses of \$8,896; a decrease in Depreciation Expense of (\$9,976); a decrease in Taxes Other Than Income

of (\$303); and a decrease in Interest Expense of (\$2,249). Total operating expenses amount to \$264,835.

7. The operating margin for the test year under present rates and after accounting and pro forma adjustments approved herein is (4.81%). The calculation for the operating margin was based on using the test year adjusted operating revenues of \$254,866 as approved herein and test year as adjusted operating expenses of \$264,835 as approved herein. Adjusted test year operations result in a "Net Loss for Return" of (\$9,969). Using the adjusted Net Loss for Return less Interest Expense (if applicable) divided by Operating Revenues, we calculate a negative operating margin of (4.81%).

The following table indicates (1) DSI's gross revenues for the test year after adjustments approved herein under the current rate schedule; (2) DSI's operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable out-of test year occurrences approved herein; and (3) the operating margin under the presently approved schedule for the test year:

TABLE A

Before Increase As Adjusted

Operating Revenues	\$254,866
Operating Expenses	<u>264,835</u>
Net Operating Income/Loss	(9,969)
Add: Customer Growth	<u>0</u>
 NET INCOME/ (LOSS) FOR RETURN	 <u>(9,969)</u>
 Operating Margin	 <u>(4.81%)</u>
(Interest Expense For Operating Margin)	<u>\$2,284</u>

8. Based on the operating margin for the test year after accounting and pro forma adjustments, we find that DSI has demonstrated a need for an increase in rates. Adjusted test year operations reveal an operating margin of (4.81%). Expenses of operating the system outweigh the revenues of the system.

9. When applied to as adjusted test year operations, the rates requested and proposed by DSI result in an operating margin of 1.02% for Phase-I and 3.25% for Phase-II. Information concerning the effect of the proposed rates when applied to as adjusted test year operations of DSI is found in ORS exhibits introduced during the hearing and the Company's Application. ORS witness Scott calculated the rates proposed by DSI for the Phase-I rate increase, would produce additional revenues of \$66,960 which result in an operating margin of 14.92%. Hearing Exhibit 4, Audit Exhibit A. However, we calculate that the rates proposed by DSI for the Phase-I rate increase, would produce additional revenues of \$71,860 which results in an operating margin of 1.02%. We also calculate that the rates proposed by DSI for the Phase-II rate increase would produce additional revenues of \$47,880 which results in an operating margin of 3.25%.

10. The Commission finds that an operating margin of 1.02% in Phase-I and 3.25% in Phase-II is just and reasonable and results in just and reasonable rates to charge for the services offered by DSI.

11. The level of operating revenues required in order for DSI to have an opportunity to earn a 1.02% operating margin is found to be \$326,726.

The following table indicates (1) DSI's gross revenues for the test year after adjustments approved herein, under the proposed Phase-I rate schedule; (2) DSI's operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable

out-of-test year occurrences approved herein; and (3) the operating margin under the proposed Phase-I rate schedule:

TABLE B

After Phase-I Increase

Operating Revenues	\$326,726
Operating Expenses	<u>321,149</u>
Net Operating Income/Loss	5,577
Add: Customer Growth	<u>43</u>
 NET INCOME/ (LOSS) FOR RETURN	 <u><u>5,620</u></u>
 Operating Margin	 <u>1.02%</u>
(Interest Expense For Operating Margin)	<u><u>\$2,284</u></u>

12. In order to meet the income requirement for the opportunity to earn an operating margin of 1.02%, DSI will require additional revenues of \$71,860. This amount of additional revenues represents DSI's proposed Phase-I increase.

13. The need for the Phase-II increase has been justified by DSI. ORS asserts that DSI could not justify the second phase of the proposed rates, because there were no additional known and measurable out of test year adjustments. This is not the case. First, Bush River and DSI have both applied for and obtained financing sufficient to pay for the construction of a DHEC-mandated wastewater treatment plant upgrade. The minimum cost of the system is \$932,278. We believe that there is no question that the additional monies for the new treatment plant are going to be spent. We do hold that ORS must conduct an audit of such plant expenditures and report back to this Commission, prior to the Phase-II rate increase going into

effect. This will be discussed further infra, along with other conditions that must be met before the Company may put the Phase-II increase into effect.

Additional revenues of \$47,880 are appropriate for Phase-II of the increase, for total operating revenues of \$374,606. Total operating expenses for Phase-II are \$360,242. We hold that all accounting adjustments from Phase-I will carry over into Phase-II, except that operating and maintenance expenses shall be increased by \$35,910 to reflect increased treatment expense payments to BRUI resulting from the rate increase. Total operating margin for Phase-II is 3.25%, considering interest expense of \$2,284. This may be calculated as follows:

TABLE C

After Phase-II Increase

Operating Revenues	\$374,606
Operating Expenses	<u>360,242</u>
Net Operating Income/Loss	14,364
Add: Customer Growth	<u>110</u>
NET INCOME/ (LOSS) FOR RETURN	<u>14,474</u>
Operating Margin	<u>3.25%</u>
Interest Expense for Operating Margin	<u>\$2,284</u>

14. The Commission finds that the increase in tap fees should not be approved.

By its Application, DSI requested to increase its customer tap fees by 300%. However, DSI did not provide cost justification for the proposed increase in tap fees with its application as required by 26 S.C. Code Regs. 103-512.4.A.9 (Supp. 2004) and 103-502(11). From the ORS audit of DSI, the requested increase in tap fees appears to be due to increased plant investment

upon upgrade of the BRUI wastewater treatment facility ("WWTF"). DSI also stated in responses to ORS Data Requests that "little material cost is associated with the tap." Hearing Exhibit No. 6, Response to Data Request 1.6(f). Further, DSI indicated that tap fees are used to pay officer salaries. Hearing Exhibit No. 6, Response to Data Request 1.6(f) and (h). Normally, tap fees are booked as Contributions in Aid of Construction ("CIAC") and included as a deduction from rate base. Therefore, the Commission finds the requested tap fee increase to be unnecessary at this time as the Company has not provided sufficient cost justification for the increase in tap fees.

15. The current performance bond of DSI is insufficient and does not meet the requirements of S.C. Code Ann. Section 58-5-720 (Supp. 2004).

S.C. Code Ann. Section 58-5-720 (Supp. 2004) was amended in May 2000 and increased the required amounts of performance bonds to a minimum of \$100,000 and a maximum of \$350,000. Thereafter, the Commission's regulations were amended to provide for determining the amount of bond required by each utility. 26 S.C. Code Regs. 103-512.3.1 (Supp. 2004) was amended to provide that the amount of the bond should be based on the total amount of certain expense categories.

ORS witness Hipp provided testimony concerning the performance bond filed by DSI. According to witness Hipp, DSI has on file a performance bond with a face amount of \$10,000. The performance bond is secured by a personal financial statement of Mr. Keith Parnell, President of DSI. Witness Hipp opined that the performance bond is insufficient because it does not meet the statutory amount required for the performance bond. Further, Ms. Hipp testified that that the surety filed to support the performance bond is insufficient because (1) the amount

of the surety does not comply with the requirement of 26 S.C. Code Regs. 103-512.3.1 (Supp. 2004); (2) the financial statement does not accurately depict the net worth of the surety as required by 26 S.C. Code Regs. 103-512.3.2 and 103-512.3.3; (3) the real estate indicated on the financial statement is in the name of another person and there is no documentation indicating authorization to pledge the real estate as part of the surety; and (4) the same financial statements and surety are used to secure performance bonds of DSI's sister companies BRUI and MUI. Witness Hipp calculated that an appropriate bond for DSI, based upon the criteria contained in 26 S.C. Code Regs. 103-512.3.1, would be \$236,146. ORS Witness Hipp Direct Testimony PP. 5 and Surrebuttal Testimony PP. 5-7.

DSI witness Parnell testified that DSI had complied with the Commission's requirements concerning the performance bond. Parnell Rebuttal Testimony, P. 10, ll. 12-16. Upon review of this issue, however, we find that DSI's bond does not meet the statutory requirements of S.C. Code Ann. Section 58-5-720 (Supp. 2004). The statute requires a minimum bond of \$100,000 up to a maximum of \$350,000. The requirement of the performance bond is to protect the public and to insure that the utility provides adequate and proper service. Accordingly, we hold that DSI must provide a \$100,000 bond by the end of its construction phase, i.e. Phase-I. We waive, pursuant to the provisions of 26 S.C. Code Ann. Regs. 103-501.3, that portion of 26 S.C. Code Ann. Regs. 103-512.3.1 which requires that the amount of bond be based on, but not limited to, the total amount of certain categories of Company expenses for twelve months. The Commission's waiver regulation for sewer companies, 26 S.C. Code Ann. Regs. 103-501.3, states that in any case where compliance with any of the rules and regulations introduces unusual difficulty, such rules or regulations may be waived by the Commission upon a finding by the

Commission that such waiver is in the public interest. Considering the present financial position of the Company, and considering the fact that the Company has had difficulty in the past in obtaining a surety bond, we believe that setting the bond in the amount recommended by ORS, which is in line with the cited portion of the Commission regulation, is going to introduce unusual difficulty for the Company in complying with that portion of the regulation. Further, the waiver of the stated portion of 26 S.C. Code Ann. Regs. 103-512.3.1 is in the public interest, since it allows the Company to more easily transition to a bond amount in line with the statutory language found in S.C. Code Ann. Section 58-5-720 (Supp. 2004). DSI must comply with the bonding requirement by completion of construction of Bush River's new treatment facility. The Commission will review bonding requirements if a merger of the three companies occurs.

16. Although we would certainly encourage the Company to prepare a business plan, this Commission does not have the authority to order the Company to prepare one. Therefore, the recommendation that DSI prepare and file with the Commission and with ORS a business plan is rejected. Also, we believe that SCDHEC and lending institutions already require this type of plan. Any further planning requirements would be burdensome and may detract from DSI or its sister companies devoting resources to upgrading the system and bringing it into compliance. However, as was previously stated, we encourage the Company to examine such a business plan if feasible.

Mr. Parnell testified, and the application also states, that the intention of the Parnells is to merge all three companies into one company. However, Mr. Parnell indicated that there are no firm plans or timetable for a merger to occur.

The ORS witnesses recommended that the Commission require DSI to merge with its affiliated companies. However, this Commission does not have the authority to order a company to merge with another. While this Commission's decisions are often based on the prudence or imprudence of management decisions, those decisions involve a review of the management decisions, and this Commission has no authority to manage the utility. But while this Commission cannot manage the day to day operations of the utility, this Commission can require utilities under its jurisdiction to investigate various avenues or strategies to assist the utility. Accordingly, we reaffirm our position encouraging a merger of these companies as outlined in Order No. 96-44.

17. The Commission finds that DSI should maintain its books and records in accordance with the NARUC Uniform System of Accounts, as adopted by this Commission.

DSI witness Parnell admitted that DSI is not maintaining its books and records under the NARUC Uniform System of Accounts. The Commission's rules and regulations require sewerage utilities to use the NARUC Uniform System of Accounts. Keeping books and records in compliance with NARUC's Uniform System of Accounts will not only mean compliance with 26 S.C. Code Regs. 103-517, but will also make regulatory audits easier and less burdensome. ORS requested that DSI be required to maintain its books and records under NARUC's Uniform System of Accounts. We believe that the Company should be in compliance with this requirement by the end of Phase-I.

After considering the Company's testimony in this case, it appears that Company personnel lack understanding of our Rules and Regulations, for whatever reason. We encourage the Company to study the Commission's Rules and Regulations more carefully, and attempt to

gain a better understanding of them. Further, we urge the Company to seek help from personnel at the Office of Regulatory Staff when appropriate in this endeavor.

CONCLUSIONS OF LAW

Based upon the Findings of Fact as contained herein and the record of this proceeding, the Commission makes the following Conclusions of Law:

1. DSI is a public utility as defined in S.C. Code Ann. § 58-5-10(3) (Supp. 2004) and as such is subject to the jurisdiction of this Commission.

2. The appropriate test year on which to set rates for DSI is the twelve month period ending December 31, 2003.

3. Based on the information provided by the parties, the Commission concludes the appropriate rate setting methodology to use as a guide in determining the lawfulness of DSI's proposed rates and for the fixing of just and reasonable rates is operating margin.

4. For the test year of December 31, 2003, the appropriate operating revenues, under present rates and as adjusted in this Order, are \$254,866, and the appropriate operating expenses, under present rates and as adjusted in this Order, are \$264,835.

5. We conclude that DSI has demonstrated a need for a rate increase as operating expenses outweigh operating revenues. We further conclude that DSI has demonstrated the need for the two-phase increase in rates proposed in the application. DSI has provided justification for an increase beyond the Phase-I rates as additional known and measurable expenses have been identified. After Phase-I of the rates, DSI should have an operating margin of 1.02%. We conclude that an operating margin of 1.02% is fair and reasonable and results in rates which are

just and reasonable. Likewise, we believe that an operating margin of 3.25% is fair and reasonable, and results in rates which are fair and reasonable for Phase-II of the rate increase.

6. In order for DSI to have the opportunity to earn the 1.02% operating margin for Phase-I and 3.25% for Phase-II found fair and reasonable herein, DSI must be allowed additional revenues of \$71,860 and \$47,880, respectively.

7. The proposed increase in the tap fee is not allowed because the proposal does not correctly identify the expenses associated with the tap fee as required by 26 S.C. Code Regs. 103-502.11.

8. The rates as set forth in the attached Appendix A are approved for use by DSI and are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of DSI.

9. Based upon the requirements of S.C. Code Ann. Section 58-5-720 (Supp. 2004) and the unwaived portion of 26 S.C. Regs. 103-512.3.1 (Supp. 2004), DSI shall post a performance bond of \$100,000 by the end of Phase-I. The performance bond shall be in a form as allowed by S.C. Code Ann. Section 58-5-720 and the unwaived portion of 26 S.C. Code Regs. 103-512.3 through 103-512.3.3 (Supp. 2004).

IT IS THEREFORE ORDERED THAT:

1. DSI is granted an operating margin for its sewer service of 1.02% for Phase-I and 3.25% for Phase-II.

2. The schedule of rates and charges attached hereto for Phase-I of the rate increase as Appendix A are hereby approved for service rendered on or after the date of this Order. Further, the schedule is deemed filed with the Commission pursuant to S.C. Code Ann. Section

58-5-240 (Supp. 2004). Prior to the Company implementing Phase-II of the rate increase, the Company shall undergo an audit from the Office of Regulatory Staff. Further, prior to entering Phase-II, DSI shall be in compliance with all SCDHEC regulations. In addition, prior to implementing Phase-II, the Company must be maintaining its books and records according to the NARUC System of Accounts, and must post a \$100,000 performance bond as discussed above. The Company must certify its compliance with all of these requirements before entering Phase-II of the rate increase. Further, ORS must certify to this Commission that it has performed the required audit, and the results of that audit. Should the audit reveal non-compliance with Commission directives in this matter, the Company may not implement Phase-II of the rate increase until further Order of the Commission. In addition, DHEC must certify compliance of the Company with all of its requirements to the Commission. We cannot stress enough the necessity for compliance with all directives of this Commission before implementation of Phase-II of the rate increase.

3. Should the schedules containing rates for Phase-I of the rate increase approved herein not be placed into effect within three months of this Order, DSI shall require written approval from this Commission to place the rates into effect.

4. As referred to above, DSI shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by this Commission by the end of Phase-I.

5. Also, as referred to above, pursuant to and consistent with S.C. Code Ann. Section 58-5-720 and the unwaived portion of 26 S.C. Code Regs. 103-512.3 through 103-512.3.3 (Supp. 2004), DSI shall post a performance bond with a face value of \$100,000 by the end of Phase-I.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

/s/
Randy Mitchell, Chairman

ATTEST:

/s/
G. O'Neal Hamilton, Vice Chairman